

**REPORT OF THE AUDIT OF THE
CUMBERLAND COUNTY
SHERIFF**

**For the Year Ended
December 31, 2001**



**EDWARD B. HATCHETT, JR.
AUDITOR OF PUBLIC ACCOUNTS
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EXECUTIVE SUMMARY

AUDIT EXAMINATION OF THE CUMBERLAND COUNTY SHERIFF

**For The Year Ended
December 31, 2001**

The Auditor of Public Accounts has completed the Cumberland County Sheriff's audit for the year ended December 31, 2001. We have issued an unqualified opinion on the financial statement taken as a whole. Based upon the audit work performed, the financial statement is presented fairly in all material respects.

Financial Condition:

Excess fees increased by \$4,161 from the prior calendar year, resulting in excess fees of \$7,105 as of December 31, 2001. Revenues increased by \$37,832 from the prior year and disbursements increased by \$33,671.

Report Comment:

- The Sheriff Should Have Required The Depository Institution To Pledge Or Provide Additional Collateral Of \$631,756 And Enter Into A Written Agreement To Protect Deposits

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EDWARD B. HATCHETT, JR.
AUDITOR OF PUBLIC ACCOUNTS

To the People of Kentucky

Honorable Paul E. Patton, Governor

T. Kevin Flanery, Secretary

Finance and Administration Cabinet

Dana Mayton, Secretary, Revenue Cabinet

Honorable Donna Thurman Knight, Cumberland County Judge/Executive

Honorable James Pruitt, Cumberland County Sheriff

Members of the Cumberland County Fiscal Court

Independent Auditor's Report

We have audited the accompanying statement of receipts, disbursements, and excess fees of the County Sheriff of Cumberland County, Kentucky, for the year ended December 31, 2001. This financial statement is the responsibility of the County Sheriff. Our responsibility is to express an opinion on this financial statement based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America, the standards applicable to financial audits contained in Government Auditing Standards issued by the Comptroller General of the United States, and the Audit Guide for County Fee Officials issued by the Auditor of Public Accounts, Commonwealth of Kentucky. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statement is free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statement. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

As described in Note 1, the County Sheriff prepares his financial statement on a prescribed basis of accounting that demonstrates compliance with the modified cash basis and laws of Kentucky, which is a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America.

In our opinion, the financial statement referred to above presents fairly, in all material respects, the receipts, disbursements, and excess fees of the County Sheriff for the year ended December 31, 2001, in conformity with the modified cash basis of accounting.

In accordance with Government Auditing Standards, we have also issued our report dated August 9, 2002, on our consideration of the County Sheriff's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grants. That report is an integral part of an audit performed in accordance with Government Auditing Standards and should be read in conjunction with this report in considering the results of our audit.



To the People of Kentucky
Honorable Paul E. Patton, Governor
T. Kevin Flanery, Secretary
Finance and Administration Cabinet
Dana Mayton, Secretary, Revenue Cabinet
Honorable Donna Thurman Knight, County Judge/Executive
Honorable James Pruitt, Cumberland County Sheriff
Members of the Cumberland County Fiscal Court

Based on the results of our audit, we have presented the accompanying comment and recommendation, included herein, which discusses the following report comment:

- The Sheriff Should Have Required The Depository Institution To Pledge Or Provide Additional Collateral Of \$631,756 And Enter Into A Written Agreement To Protect Deposits

Respectfully submitted,

A handwritten signature in black ink, appearing to read "Ed Hatchett".

Edward B. Hatchett, Jr.
Auditor of Public Accounts

Audit fieldwork completed -
August 9, 2002

CUMBERLAND COUNTY
JAMES PRUITT, SHERIFF
STATEMENT OF RECEIPTS, DISBURSEMENTS, AND EXCESS FEES

For The Year Ended December 31, 2001

Receipts

State Fees For Services:

Finance and Administration Cabinet	\$	3,952
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Circuit Court Clerk:

Sheriff Security Service	\$ 4,585	
Fines and Fees Collected	1,200	5,785

Fiscal Court		96,927
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County Clerk - Delinquent Taxes		799
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Commission On Taxes Collected		44,324
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Fees Collected For Services:

Auto Inspections	\$ 3,135	
Serving Papers	5,038	
Carrying Concealed Deadly Weapon Permits	2,295	10,468

Other:

Sheriff's Fees and Advertising Costs	\$ 10,228	
Copies	38	
Transporting Patients	2,263	
Bond Reimbursement	101	
Miscellaneous	1,470	14,100

Interest Earned		911
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Borrowed Money:

State Advancement	\$ 17,000	
Bank Note	1,920	18,920

Total Receipts	\$	196,186
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CUMBERLAND COUNTY
 JAMES PRUITT, SHERIFF
 STATEMENT OF RECEIPTS, DISBURSEMENTS, AND EXCESS FEES
 For The Year Ended December 31, 2001
 (Continued)

Disbursements

Operating Disbursements and Capital Outlay:

Personnel Services-

Deputies' Salaries	\$	40,142
Other Salaries		17,280

Contracted Services-

Advertising		398
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Materials and Supplies-

Office Materials and Supplies		2,144
Uniforms		1,861

Auto Expense-

Gasoline		7,594
Maintenance and Repairs		20,387

Other Charges-

Postage		413
Carrying Concealed Deadly Weapon Permits		1,535
Bond		101
Miscellaneous		1,407

Capital Outlay-

Law Enforcement Equipment		2,680
Vehicles		17,200

Debt Service:

State Advancement		17,000
Notes		1,920
Interest on Note		92

Total Disbursements	\$	132,154
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Net Receipts	\$	64,032
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Less: Statutory Maximum		56,927
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Excess Fees Due County for 2001	\$	7,105
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Payment To County Treasurer - August 9, 2002		7,105
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Balance Due at Completion of Audit	\$	0
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The accompanying notes are an integral part of the financial statement.

CUMBERLAND COUNTY
NOTES TO FINANCIAL STATEMENT

December 31, 2001

Note 1. Summary of Significant Accounting Policies

A. Fund Accounting

A fee official uses a fund to report on the results of operations. A fund is a separate accounting entity with a self-balancing set of accounts. Fund accounting is designed to demonstrate legal compliance and to aid financial management by segregating transactions related to certain government functions or activities.

A fee official uses a fund for fees to account for activities for which the government desires periodic determination of the excess of receipts over disbursements to facilitate management control, accountability, and compliance with laws.

B. Basis of Accounting

The financial statement has been prepared on a modified cash basis of accounting, which is a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America. Under this basis of accounting, certain receipts and certain expenditures are recognized as a result of accrual at December 31, 2001.

The measurement focus of a fee official is upon excess fees. Remittance of excess fees is due to the County Treasurer in the subsequent year.

C. Cash and Investments

At the direction of the fiscal court, KRS 66.480 authorizes the County Sheriff's office to invest in the following, including but not limited to, obligations of the United States and of its agencies and instrumentalities, obligations and contracts for future delivery or purchase of obligations backed by the full faith and credit of the United States, obligations of any corporation of the United States government, bonds or certificates of indebtedness of this state, and certificates of deposit issued by or other interest-bearing accounts of any bank or savings and loan institution which are insured by the Federal Deposit Insurance Corporation (FDIC) or which are collateralized, to the extent uninsured, by any obligation permitted by KRS 41.240(4).

Note 2. Employee Retirement System

The county officials and employees have elected to participate in the County Employees Retirement System (CERS), pursuant to KRS 78.530 administered by the Board of Trustees of the Kentucky Retirement Systems. This is a multiple-employer public retirement system that covers all eligible full-time employees. Benefit contributions and provisions are established by statute. Nonhazardous covered employees are required to contribute 5.0 percent of their salary to the plan. The county's contribution rate for nonhazardous employees was 7.17 percent for the first six months of the year and the 6.41 for the last six months of the year.

Benefits fully vest on reaching five years of service for nonhazardous employees. Aspects of benefits for nonhazardous employees include retirement after 27 years of service or age 65.

CUMBERLAND COUNTY
 NOTES TO FINANCIAL STATEMENT
 December 31, 2001
 (Continued)

Note 2. Employee Retirement System (Continued)

Historical trend information pertaining to CERS' progress in accumulating sufficient assets to pay benefits when due is present in the Kentucky Retirement Systems' annual financial report which is a matter of public record.

Note 3. Deposits

The Sheriff maintained deposits of public funds with depository institutions insured by the Federal Deposit Insurance Corporation (FDIC). According to KRS 66.480(1)(d) and KRS 41.240(4), the depository institution should pledge or provide sufficient collateral which, together with FDIC insurance, equals or exceeds the amount of public funds on deposit at all times. In order to be valid against the FDIC in the event of failure or insolvency of the depository institution, this pledge or provision of collateral should be evidenced by an agreement between the Sheriff and the depository institution, signed by both parties, that is (a) in writing, (b) approved by the board of directors of the depository institution or its loan committee, which approval must be reflected in the minutes of the board or committee, and (c) an official record of the depository institution. As of December 31, 2001, the bank balances were fully insured or collateralized at a 100% level with collateral of either pledged securities held by the Sheriff's agent in the Sheriff's name, or provided surety bond which named the Sheriff as beneficiary/obligee on the bond. However, as of December 3, 2001, the collateral and FDIC insurance together did not equal or exceed the amount on deposit, leaving \$631,756 of public funds uninsured and unsecured. The Sheriff did have a written agreement with the depository institution securing the Sheriff's interest in the collateral, however the agreement was not approved by the board of directors and reflected in the minutes of the board until December 21, 2001.

The county official's deposits are categorized below to give an indication of the level of risk assumed by the county official as of December 3, 2001.

	<u>Bank Balance</u>
FDIC Insurance	\$ 100,000
Uncollateralized and uninsured	<u>631,756</u>
Total	<u><u>\$ 731,756</u></u>

COMMENT AND RECOMMENDATION

CUMBERLAND COUNTY
JAMES PRUITT, COUNTY SHERIFF
COMMENT AND RECOMMENDATION

For The Year Ended December 31, 2001

The Sheriff Should Have Required The Depository Institution To Pledge Or Provide Additional Collateral Of \$631,756 And Enter Into A Written Agreement To Protect Deposits

On December 3, 2001, \$631,756 of the Sheriff's deposits of public funds were uninsured and unsecured. As of December 6, 2001, the bank did pledge securities of \$485,000 to protect deposits. According to KRS 66.480(1)(d) and KRS 41.240(4), financial institutions maintaining deposits of public funds are required to pledge securities or provide surety bonds as collateral to secure these deposits if the amounts on deposit exceed the \$100,000 amount of insurance coverage provided by the Federal Deposit Insurance Corporation (FDIC). The Sheriff should require the depository institution to pledge or provide collateral in an amount sufficient to secure deposits of public funds at all times. We also recommend the Sheriff enter into a written agreement with the depository institution to secure the Sheriff's interest in the collateral pledged or provided by the depository institution. According to federal law, 12 U.S.C.A. § 1823(e), this agreement, in order to be recognized as valid by the FDIC, should be (a) in writing, (b) approved by the board of directors of the depository institution or its loan committee, which approval must be reflected in the minutes of the board or committee, and (c) an official record of the depository institution.

County Sheriff's Response:

Will raise the pledge of securities from November 1st until on or about February 31st. We have obtained a written agreement at this time.

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REPORT ON COMPLIANCE
AND ON INTERNAL CONTROL OVER FINANCIAL
REPORTING BASED ON AN AUDIT OF THE FINANCIAL STATEMENT
PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS



EDWARD B. HATCHETT, JR.
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**Report On Compliance And On Internal Control
Over Financial Reporting Based On An Audit Of The Financial
Statement Performed In Accordance With Government Auditing Standards**

We have audited the statement of receipts, disbursements, and excess fees of the Cumberland County Sheriff for the year ended December 31, 2001, and have issued our report thereon dated August 9, 2002. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards issued by the Comptroller General of the United States.

Compliance

As part of obtaining reasonable assurance about whether the Cumberland County Sheriff's financial statement for the year ended December 31, 2001, is free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grants, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed an instance of noncompliance that is required to be reported under Government Auditing Standards, and which is described in the accompanying comment and recommendation.

- The Sheriff Should Have Required The Depository Institution To Pledge Or Provide Additional Collateral Of \$631,756 And Enter Into A Written Agreement To Protect Deposits

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the Cumberland County Sheriff's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statement and not to provide assurance on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control over financial reporting that might be material weaknesses.



Report On Compliance And On Internal Control
Over Financial Reporting Based On An Audit Of The Financial
Statement Performed In Accordance With Government Auditing Standards
(Continued)

Internal Control Over Financial Reporting (Continued)

A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the financial statement being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses.

This report is intended solely for the information and use of management and is not intended to be and should not be used by anyone other than the specified party.

Respectfully submitted,

A handwritten signature in black ink, appearing to read "Ed Hatchett", with a horizontal line extending from the end of the signature.

Edward B. Hatchett, Jr.
Auditor of Public Accounts

Audit fieldwork completed -
August 9, 2002

